

Research
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Telecommunications
Russia

Vimpelcom

But MTS is better

Recommendation: HOLD

Analyst: Ilya Fedotov
E-mail: IFedotov@veles-capital.ru

Bullet moments

Last week Vimpelcom summed up the results of the third quarter by US GAAP. Sales of the company for the quarter formed 71.3 bn RUR, OIBDA – 36 bn RUR, net profit – 13.5 bn RUR.

Totally, the company showed good results. Vimpelcom showed slight slipping of profitability within the quarter, however, if comparing 9 months it is evident that the company preserves its efficiency at the previous year level, unlike MTS, which showed reduction of OIBDA margin by 4 p.p. Mainly such dynamics of Vimpelcom can be explained by better control over expenses, and also by having reached synergy effects from joining GoldenTelecom.

Among the most interesting moments of the report we might outline the dynamics of operating estimates in Uzbekistan. This summer Vimpelcom introduced a new tariff plan in the given country, which provides free calls within the network. As a result, APPM dropped by 46%, but MOU upped by 80%. As a result ARPU and income dropped by 7-8%. Among the other moments, low income from currency exchange, which according to some publishers was related to policy of the company on hedging currency risks, should be outlined.

We have revised our model of Vimpelcom considering the results of nine months, change of macroeconomic situation in Russia, and also the slippage of horizon valuation to the end of 2010. After considering given changes we are upping our fair value to 18.13 USD per share versus the previous estimate of 11.69 USD. Considering the current market quotes, that value corresponds with the recommendation HOLD. The former recommendation was SELL.

In addition we assume purchasing the shares of Vimpelcom's principal competitor – MTS – seem to be a more interesting investment idea. The benefits of MTS are the lower net debt under the conditions of similar profit estimates and OIBDA. Besides, MTS is stably paying off dividends to its holders, which provides an actual cash flow instead of the illusive growth of quotes.

Principal estimates

Company's shares vs. the RTS index



Information about Vimpelcom

Ticker NYSE	VIP
Market price, USD	19.54
Min / max price during last year, USD	4.91 / 22.47
Fair price at year end, USD	18.13
Upside (downside), %	-7.2
Total ADR, units ¹	1,013,673,200
MC, mn USD	19,807
EV, mn USD	27,040

¹Excl. treasury stocks

Financial values (US GAAP)	2008	2009 (F)	2010 (F)
Sales, mn USD	10,117	9,079	10,341
OIBDA, mn USD ¹	4,860	4,486	5,297
Net income, mn USD	524	990	2,211
OIBDA margin, % ¹	48.0	49.4	51.2
Net income margin, %	5.2	10.9	21.4

¹ Figures are given excluding impairment losses

Financial coefficients	2008	2009 (F)	2010 (F)
EV / S	2.67	2.98	2.61
EV / OIBDA	5.56	6.03	5.11
P / E	37.78	20.01	8.96
ROIC, %	30.6	18.0	21.0
ROE, %	10.1	19.6	30.5

Operating and financial results

Operating results of Vimpelcom

	9M08	Chng., %	9M09	3Q08	Chng., %	4Q08	Chng., %	1Q09	Chng., %	2Q09	Chng., %	3Q09
Active subscribers (cellular), th.	57,758	13.0	65,263	57,758	5.7	61,029	2.8	62,724	1.4	63,615	2.6	65,263
Russia	45,093	13.2	51,028	45,093	5.7	47,677	3.5	49,351	1.3	49,971	2.1	51,028
Kazakhstan	5,614	21.7	6,835	5,614	11.7	6,270	1.7	6,377	4.3	6,653	2.7	6,835
Ukraine	2,403	-8.5	2,199	2,403	-14.6	2,052	-7.7	1,894	2.1	1,934	13.7	2,199
Uzbekistan	3,148	16.0	3,652	3,148	15.5	3,636	0.5	3,653	-1.3	3,605	1.3	3,652
Tajikistan	527	34.0	706	527	18.6	625	15.5	722	-6.2	677	4.3	706
Armenia	784	-36.0	502	784	-30.6	544	-11.6	481	1.0	486	3.3	502
Georgia	189	80.4	341	189	19.0	225	9.3	246	17.5	289	18.0	341
ARPU (cellular), USD												
Russia	14.4	-31.6	9.8	15.2	-17.8	12.5	-28.7	8.9	12.1	10.0	5.6	10.6
Kazakhstan	12.0	-33.7	8.0	12.1	-10.7	10.8	-27.7	7.8	0.7	7.9	4.7	8.2
Ukraine	7.9	-36.7	5.0	9.7	-27.8	7.0	-37.1	4.4	17.4	5.2	3.9	5.4
Uzbekistan	6.3	-24.5	4.8	6.5	4.6	6.8	-24.3	5.1	-9.3	4.7	-3.8	4.5
Tajikistan	9.4	-25.6	7.0	10.4	-7.7	9.6	-27.4	7.0	-1.4	6.9	4.1	7.2
Armenia	15.0	-8.6	13.7	13.9	-2.2	13.6	2.4	13.9	-2.7	13.5	1.2	13.7
Georgia	8.6	2.1	8.8	9.9	-2.0	9.7	-14.4	8.3	5.9	8.8	4.7	9.2
MOU (cellular), min.												
Russia	216.0	-5.6	203.5	228.5	-0.3	227.8	-10.9	203.0	4.3	211.8	0.6	213.6
Kazakhstan	105.8	-16.2	88.6	108.1	-7.0	100.5	-19.3	81.1	11.8	90.7	8.2	98.1
Ukraine	235.2	-10.9	209.5	261.5	-12.0	230.0	-7.3	213.3	2.1	217.8	-6.5	203.7
Uzbekistan	287.6	4.5	300.6	298.5	-3.3	288.6	-17.3	238.6	-5.4	225.6	81.4	409.3
Tajikistan	236.5	-27.6	171.4	255.9	-4.9	243.4	-29.5	171.7	0.8	173.1	0.1	173.3
Armenia	153.2	49.3	228.7	139.9	7.2	150.0	16.5	174.7	36.5	238.4	12.8	269.0
Georgia	97.2	28.5	124.9	109.8	18.2	129.8	-6.6	121.2	1.6	123.1	5.0	129.3
Active subscribers (broadband), th.	785	145.7	1,930	785	53.6	1,206	27.5	1,538	13.1	1,739	11.0	1,930
Russia	764	139.9	1,833	764	54.7	1,182	26.7	1,498	10.7	1,659	10.5	1,833
Kazakhstan	n/d	n/m	0	n/d	n/m	n/d	n/m	n/d	n/m	0	0.0	0
Ukraine	16	337.5	70	16	50.0	24	66.7	40	32.5	53	32.1	70
Uzbekistan	n/d	n/m	8	n/d	n/m	n/d	n/m	n/d	n/m	8	9.2	8
Armenia	5	235.2	18	5	n/m	n/d	n/m	n/d	n/m	19	-5.7	18

Note: ARPU and MOU for 9M are own estimates

Source: company, estimates: Veles Capital

US GAAP financial results of Vimpelcom, mn USD

	9M08	Chng., %	9M09	3Q08	Chng., %	4Q08	Chng., %	1Q09	Chng., %	2Q09	Chng., %	3Q09
Sales	7,564	-15.9	6,360	2,843	-10.1	2,555	-23.9	1,944	10.1	2,140	6.4	2,276
Cellular	6,524	-18.2	5,337	2,402	-10.6	2,148	-25.7	1,597	13.0	1,804	7.3	1,936
Fixed	1,162	13.8	1,322	510	-2.2	499	-22.5	387	16.8	452	6.9	483
Costs	(5,233)	-15.9	(4,402)	(1,953)	-2.5	(1,905)	-27.4	(1,383)	4.8	(1,450)	7.9	(1,565)
Amortization	(1,408)	-14.4	(1,206)	(498)	-4.9	(473)	-20.7	(375)	5.0	(394)	10.8	(437)
Operating income	2,330	-15.9	1,959	890	-26.8	651	-13.9	560	23.1	690	3.2	712
Operating income margin, %	30.8	0.0	30.8	31.3	-5.8	25.5	3.4	28.8	3.4	32.2	-1.0	31.3
OIBDA	3,739	-15.4	3,165	1,387	-19.0	1,124	-16.8	935	15.9	1,084	5.9	1,148
OIBDA margin, %	49.4	0.3	49.8	48.8	-4.8	44.0	4.1	48.1	2.5	50.6	-0.2	50.4
Impairment losses	0	n/m	0	0	n/m	(443)	n/m	0	n/m	0	n/m	0
Interest expenses	(342)	26.3	(432)	(142)	8.3	(154)	-12.0	(135)	3.6	(140)	12.2	(157)
Other non-operating incomes / expenses	(90)	311.7	(372)	(328)	223.5	(1,061)	-32.8	(712)	n/m	353	-91.1	31
EBT	1,898	-39.1	1,155	420	n/m	(1,006)	-71.5	(287)	n/m	903	-35.1	586
EBT margin, %	25.1	-6.9	18.2	14.8	-54.1	Neg.	24.6	neg.	57.0	42.2	-16.5	25.7
Income tax	(513)	-39.4	(311)	(139)	n/m	209	-86.3	29	n/m	(195)	-21.5	(153)
Minority interest	(45)	n/m	3	(13)	44.8	(18)	n/m	11	n/m	(7)	-80.4	(1)
Net income excl. Impairment losses	1,340	-36.8	847	269	n/m	(465)	-46.7	(248)	n/m	701	-38.5	431
Net income	1,340	-36.8	847	269	n/m	(816)	-69.7	(248)	n/m	701	-38.5	431
Net income margin, %	17.7	-4.4	13.3	9.4	-41.4	Neg.	19.2	neg.	45.5	32.7	-13.8	18.9
Average RUR/USD exchange ratio	24.03	35.6	32.58	24.23	12.5	27.26	26.2	34.39	-6.2	32.26	-2.9	31.34

Note 1: percentage changes are given in percentage points

Note 2: operating expenses, OIBDA and operating profit are given excluding impairment losses

Source: company, estimates: Veles Capital

Financial model

Income statements of Vimpelcom, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Sales	3,211	4,868	7,171	10,117	9,079	10,341	11,019	11,515	12,107	12,337
Costs	(1,640)	(2,416)	(3,574)	(5,257)	(4,594)	(5,044)	(5,705)	(6,091)	(6,697)	(6,920)
OIBDA	1,571	2,452	3,597	4,860	4,486	5,297	5,314	5,424	5,411	5,418
<i>OIBDA margin, %</i>	<i>48.9</i>	<i>50.4</i>	<i>50.2</i>	<i>48.0</i>	<i>49.4</i>	<i>51.2</i>	<i>48.2</i>	<i>47.1</i>	<i>44.7</i>	<i>43.9</i>
Amortization	(593)	(1,054)	(1,391)	(1,881)	(1,675)	(1,816)	(1,965)	(2,109)	(2,275)	(2,378)
EBIT	978	1,397	2,206	2,536	2,811	3,480	3,349	3,315	3,136	3,040
<i>EBIT margin, %</i>	<i>30.5</i>	<i>28.7</i>	<i>30.8</i>	<i>25.1</i>	<i>31.0</i>	<i>33.7</i>	<i>30.4</i>	<i>28.8</i>	<i>25.9</i>	<i>24.6</i>
Non-recurrent items	0	0	0	(443)	0	0	0	0	0	0
Interest expenses	(147)	(186)	(195)	(496)	(633)	(594)	(511)	(438)	(332)	(219)
Non-operating income (losses)	10	1	109	(1,149)	(474)	333	(74)	166	10	5
EBT	840	1,212	2,120	891	1,703	3,220	2,764	3,043	2,814	2,826
<i>EBT margin, %</i>	<i>26.2</i>	<i>24.9</i>	<i>29.6</i>	<i>8.8</i>	<i>18.8</i>	<i>31.7</i>	<i>25.1</i>	<i>26.4</i>	<i>23.2</i>	<i>22.9</i>
Income tax	(222)	(393)	(594)	(304)	(594)	(743)	(676)	(632)	(568)	(571)
Minority interest	(3)	(8)	(64)	(63)	(119)	(265)	(224)	(258)	(241)	(242)
Net income	615	811	1,463	524	990	2,211	1,864	2,152	2,005	2,013
<i>Net income margin, %</i>	<i>19.2</i>	<i>16.7</i>	<i>20.4</i>	<i>5.2</i>	<i>10.9</i>	<i>21.4</i>	<i>16.9</i>	<i>18.7</i>	<i>16.6</i>	<i>16.3</i>

Source: company's data, Estimation: Veles Capital

Balance sheets of Vimpelcom, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
ASSETS										
Non-current assets										
PPE and intangible assets	5,251	7,122	8,338	12,100	10,869	11,386	10,945	11,086	10,526	9,853
Other non-current assets	95	190	504	1,219	1,155	1,239	1,225	1,284	1,272	1,254
Total non-current assets	5,346	7,312	8,842	13,319	12,024	12,625	12,170	12,370	11,798	11,107
Current assets										
Current assets	598	780	723	1,492	1,619	1,867	1,909	2,055	2,100	2,135
Short-term investments	0	0	0	0	970	1,387	2,052	3,555	3,460	5,093
Cash and equivalents	364	344	1,004	915	993	1,145	1,170	1,260	1,287	1,309
Total current assets	961	1,125	1,727	2,407	3,582	4,399	5,132	6,870	6,847	8,537
Total assets	6,307	8,437	10,569	15,725	15,607	17,024	17,302	19,240	18,644	19,644
LIABILITIES										
Shareholder's equity										
Shareholder's equity	2,741	3,943	5,412	4,389	5,173	7,503	8,430	10,322	11,410	12,516
Minority interest	189	258	288	221	331	630	846	1,151	1,380	1,600
Non-current liabilities										
Long-term borrowings	1,923	2,489	2,767	8,443	7,307	5,727	4,818	4,334	2,373	2,012
Other non-current liabilities	418	558	629	767	727	780	771	808	801	789
Total non-current liabilities	2,341	3,048	3,395	9,210	8,034	6,507	5,589	5,142	3,173	2,801
Current liabilities										
Current liabilities	727	873	1,050	1,898	2,060	2,375	2,428	2,614	2,671	2,715
Other current liabilities	310	314	424	7	8	9	10	10	11	11
Total current liabilities	1,037	1,188	1,473	1,905	2,068	2,384	2,438	2,625	2,682	2,726
Total liabilities	6,307	8,437	10,569	15,725	15,607	17,024	17,302	19,240	18,644	19,644

Source: company's data, Estimation: Veles Capital

Statements of cash flow of Vimpelcom, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Cash flows from operating activities										
Net income	615	811	1,463	524	990	2,211	1,864	2,152	2,005	2,013
Minority interest	3	8	64	63	119	265	224	258	241	242
Amortization	593	1,054	1,391	1,881	1,675	1,816	1,965	2,109	2,275	2,378
Other	7	103	184	1,481	413	(368)	48	(171)	26	29
Changes in working capital	74	(5)	(63)	(528)	56	35	18	15	18	18
Net cash provided by operating activities	1,293	1,971	3,038	3,422	3,252	3,959	4,119	4,363	4,565	4,680
Cash flows from investing activities										
CapEx	(1,195)	(1,297)	(1,312)	(2,077)	(1,090)	(1,553)	(1,655)	(1,729)	(1,818)	(1,853)
Other	(396)	(990)	(922)	(6,093)	(947)	(335)	(686)	(1,370)	61	(1,695)
Net cash provided by investing activities	(1,591)	(2,287)	(2,235)	(8,170)	(2,038)	(1,887)	(2,340)	(3,099)	(1,757)	(3,548)
Cash flows from financing activities										
Proceeds from borrowings	864	925	666	6,209	1,054	0	0	0	0	0
Repayments of borrowings	(486)	(607)	(487)	(721)	(2,145)	(1,670)	(895)	(529)	(1,955)	(358)
Other	(13)	(26)	(373)	(744)	0	(326)	(844)	(703)	(813)	(734)
Net cash provided by financial activities	365	293	(194)	4,744	(1,091)	(1,995)	(1,739)	(1,232)	(2,768)	(1,092)
Currency exchange differences	(9)	4	50	(85)	(45)	75	(14)	57	(12)	(19)
Net change of cash	58	(19)	659	(89)	78	152	26	90	27	21
Cash at the beginning of period	306	364	344	1,004	915	993	1,145	1,170	1,260	1,287
Cash at the end of period	364	344	1,004	915	993	1,145	1,170	1,260	1,287	1,309

Source: company's data, Estimation: Veles Capital

Price estimation

Discount rate (WACC) of Vimpelcom, %

	2009	2010	2011	2012	2013	2014
Cost of equity (k_e)	24.79	18.61	18.26	16.92	15.36	15.20
Risk-free rate	10.3	7.9	8.1	7.2	6.3	6.3
Stock market risk	6.0	5.0	5.0	5.0	5.0	5.0
Coefficient β	1.8	1.4	1.3	1.2	1.0	1.0
Corporate risk	3.9	3.9	3.9	3.9	3.9	3.9
Share of equity, %	43.0	58.7	65.8	72.6	84.4	87.5
Cost of debt (k_d)	12.37	9.31	9.43	8.46	7.53	7.50
Risk-free rate	10.3	7.9	8.1	7.2	6.3	6.3
Debt premium	2.0	1.4	1.3	1.3	1.2	1.2
Tax rate	28.1	26.1	24.0	22.0	20.0	20.0
Share of debt, %	57.0	41.3	34.2	27.4	15.6	12.5
WACC	15.72	13.76	14.47	14.09	13.90	14.06

Estimation: Veles Capital

Cash flows of Vimpelcom, mn USD

	2005	2006	2007	2008	2009 (F)	2010 (F)	2011 (F)	2012 (F)	2013 (F)	2014 (F)
Net income (corr.)	759	983	1,648	2,668	2,155	2,702	2,647	2,677	2,604	2,503
Depreciation and amortization	593	1,054	1,391	1,881	1,675	1,816	1,965	2,109	2,275	2,378
CapEx	(1,323)	(1,977)	(1,613)	(8,046)	(1,090)	(1,553)	(1,655)	(1,729)	(1,818)	(1,853)
Changes in working capital	74	(5)	(63)	(528)	56	35	18	15	18	18
Free cash flow	103	56	1,362	(4,025)	2,795	3,000	2,975	3,072	3,079	3,046
Discount rate, %						13.8	14.5	14.1	13.9	14.1
Discount coefficient						1.00	0.87	0.77	0.67	0.59
Discounted cash flow						3,000	2,599	2,352	2,070	1,795

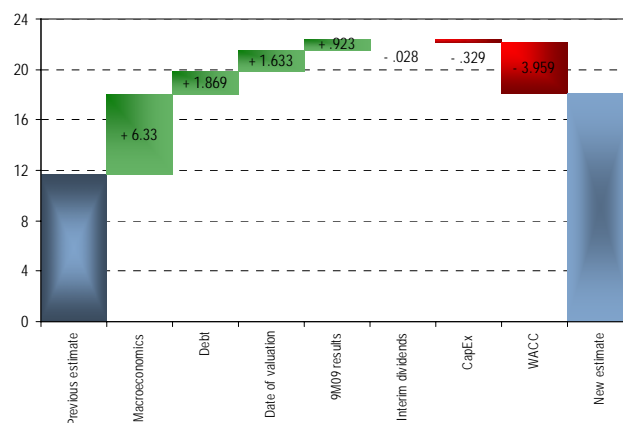
Source: company's data, Estimation: Veles Capital

Vimpelcom's ADRs valuation

TGR, %	3.0
Sum of cash flows, mn USD	16,430
Terminal value, mn USD	22,273
Discounted terminal value, mn USD	6,688
Enterprise value, mn USD	23,118
Net debt, mn USD	3,195
Shareholder's equity (incl. minority interest), mn USD	19,923
Minority interest, mn USD	1,544
Shareholder's equity, mn USD	18,379
Number of shares, mn units	1,014
Fair value of stock at the year end, USD	18.13
Upside (downside), %	-7.2

Source: company's data, Estimation: Veles Capital

Factors, altered valuation



Comparables

Comparables								
Company	Country	EV, mn USD	MC, mn USD	EV/S	EV/EBITDA	P/E	NI margin, %	ROIC, %
Russia								
Mobile Telesystems OJSC	Russia	23 065	20 049	2,25	4,49	10,39	18,84	29,38
Vimpel-Communications	Russia	27 314	19 786	2,70	5,62	37,74	5,18	26,30
Sibirtelecom	Russia	2 281	1 501	1,50	4,32	24,34	4,06	9,35
VolgaTelecom	Russia	2 109	1 587	1,63	4,30	13,53	9,06	10,56
Uralsvyazinform	Russia	3 101	2 196	1,89	5,43	21,48	6,23	10,33
Weighted average	-	-	-	2,33	4,99	16,49	11,02	23,51
Emerging markets								
Advanced Info Service PCL	Thailand	7 728	7 137	2,32	4,96	14,49	14,81	20,30
America Movil SAB de CV	Mexico	84 441	75 707	2,70	6,79	14,06	17,21	32,24
Bharti Airtel Ltd	India	25 367	23 035	3,78	8,89	14,49	23,68	43,69
China Mobile Ltd	Hong Kong	158 971	185 713	2,68	5,09	11,44	27,35	34,67
China Unicom Hong Kong Ltd	Hong Kong	34 355	31 314	1,60	3,48	6,41	22,77	7,35
China United Network Communica	China	21 434	19 742	1,00	2,19	6,95	13,28	7,66
DiGi.Com Bhd	Malaysia	5 068	5 049	3,50	7,73	14,72	23,69	87,11
Emirates Telecom Corp	UAE	19 786	22 111	2,78	8,02	9,37	33,17	29,68
Etihad Etisalat Co	Saudi Arabia	10 224	7 952	3,55	10,11	14,26	19,38	n/d
Excelcomindo Pratama PT	Indonesia	3 227	1 678	3,18	6,10	neg.	neg.	n/d
Far EasTone Telecommunications	Taiwan	3 582	3 729	1,81	4,47	11,56	16,25	15,18
Globe Telecom Inc	Philippines	3 397	2 663	2,32	4,04	10,45	17,40	14,93
Idea Cellular Ltd	India	4 886	3 242	2,92	8,69	12,51	15,51	29,94
Indosat Tbk PT	Indonesia	4 264	2 849	2,20	4,51	14,58	10,07	16,99
KT Corp	South Korea	14 749	8 567	0,81	3,10	20,56	2,29	5,50
Magyar Telekom Telecommunicati	Hungary	5 916	4 169	1,50	3,76	7,64	13,82	14,31
Maroc Telecom	Morocco	15 864	15 892	4,15	6,93	12,89	32,25	56,91
MTN Group Ltd	SAR	29 603	27 990	2,35	5,35	14,88	14,94	46,42
Oman Telecommunications Co	Oman	2 507	2 515	2,35	4,09	8,16	28,83	62,13
Philippine Long Distance Telep	Philippines	11 037	10 186	3,36	5,27	13,02	23,79	25,93
Qatar Telecom Q-Tel QSC	Qatar	12 038	5 989	2,16	4,98	9,57	11,21	12,19
SK Telecom Co Ltd	South Korea	16 291	11 717	1,25	3,90	10,40	8,67	7,96
StarHub Ltd	Singapore	2 931	2 384	1,95	6,39	10,82	14,63	36,43
Taiwan Mobile Co Ltd	Taiwan	7 572	7 053	3,44	7,94	14,46	22,18	28,46
Telecom Argentina SA	Argentina	3 764	3 183	1,12	3,57	10,46	9,06	20,98
Telekom Malaysia Bhd	Malaysia	4 604	3 186	1,77	3,09	13,38	9,13	2,09
Telekomunikasi Indonesia Tbk P	Indonesia	19 688	18 500	3,12	5,28	16,75	17,50	32,19
Telemar Norte Leste SA	Brazil	18 243	9 141	1,76	5,38	10,83	8,15	11,81
Telkom SA Ltd	SAR	4 383	2 588	0,55	1,51	2,31	14,17	22,67
Total Access Communication PCL	Thailand	2 830	2 226	1,40	4,55	7,95	13,86	10,93
Turkcell Iletisim Hizmet AS	Turkish	10 880	13 309	1,59	4,31	7,43	26,15	40,32
Weighted average	-	-	-	2,13	4,91	11,02	18,32	19,69

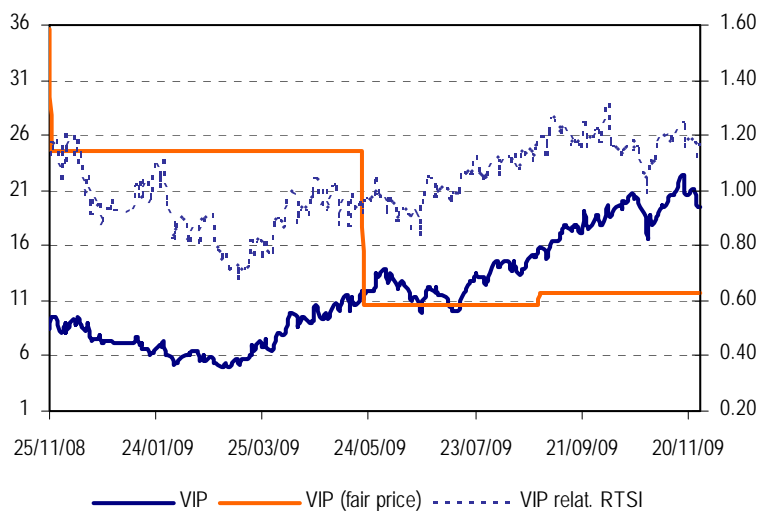
Estimates: Veles Capital

Comparables

Company	Country	EV, mn USD	MC, mn USD	EV/S	EV/EBITDA	P/E	NI margin, %	ROIC, %
Developed markets								
AT&T Inc	USA	232 998	159 799	1,88	5,43	12,42	10,37	8,40
BCE Inc	Canada	27 450	19 859	1,64	4,16	22,33	5,33	9,54
Cable & Wireless PLC	UK	5 462	5 945	0,86	4,39	18,06	5,20	15,27
CenturyTel Inc	USA	13 848	10 776	5,33	11,12	29,47	14,07	7,37
Deutsche Telekom AG	Germany	123 873	63 085	1,37	4,71	28,92	2,40	4,74
Elisa OYJ	Finland	4 671	3 539	2,14	6,76	13,65	11,87	11,65
France Telecom SA	France	116 972	67 834	1,49	4,19	11,33	7,61	9,55
Hellenic Telecommunications Or	Greece	14 018	7 573	1,49	4,00	8,55	9,39	11,51
KDDI Corp	Japan	28 779	23 791	0,91	4,31	12,44	6,06	12,17
Manitoba Telecom Services Inc	Canada	2 549	1 927	1,41	4,26	14,19	7,49	7,78
Mobistar SA	Belgium	4 561	4 126	2,02	5,24	10,02	18,27	37,33
NTT DoCoMo Inc	Japan	63 983	65 670	1,55	4,60	15,23	10,42	11,39
Portugal Telecom SGPS SA	Portugal	18 654	10 721	1,91	5,48	12,53	8,78	10,36
Koninklijke KPN NV	Netherlands	44 292	29 165	2,09	5,95	14,89	9,23	12,27
Sprint Nextel Corp	USA	29 189	11 270	0,82	4,35	neg.	neg.	n/d
Swisscom AG	Switzerland	30 617	20 480	2,71	7,35	12,59	14,40	11,42
TDC A/S	Denmark	16 235	9 619	2,12	6,24	16,78	7,48	10,45
Telecom Italia SpA	Italy	79 773	27 621	1,80	4,77	8,48	7,34	6,65
Telefonica SA	Spain	201 751	133 508	2,37	5,98	11,96	13,10	13,99
Telekom Austria AG	Austria	12 561	7 645	1,65	6,57	neg.	neg.	n/d
Telenor ASA	Norway	29 362	22 595	1,68	5,40	9,63	13,44	10,72
Telephone & Data Systems Inc	USA	4 067	3 208	0,80	3,09	34,29	1,84	9,03
TeliaSonera AB	Sweden	39 086	31 543	2,46	8,05	10,82	18,35	9,54
TELUS Corp	Canada	15 207	9 992	1,67	4,20	9,39	11,69	12,44
United States Cellular Corp	USA	4 146	3 310	0,98	4,09	100,34	0,78	9,52
Verizon Communications Inc	USA	133 156	90 986	1,37	4,23	14,15	6,60	11,83
Weighted average	-	-	-	1,66	5,05	14,10	7,69	9,52

Estimates: Veles Capital

Vimpelcom's fair price history



Sector coverage

Share	Tiker	Current price, USD	Target for year end, USD	Current growth potential, %	Recommendation	Date of recommendation revision	Investment idea
Traditional telephony							
Volgatelecom, cs	NNSI	2,4600	3,0523	24,1	BUY	03.07.2009	
Volgatelecom, ps	NNSIP	1,5300	2,2893	49,6	BUY	03.07.2009	
Dalsvyaz, cs	ESPK	3,2500	4,1875	28,8	BUY	29.10.2009	
Dalsvyaz, ps	ESPKP	2,2000	3,1406	42,8	BUY	29.10.2009	
NWT, cs	SPTL	0,4980	0,5030	1,0	BUY	17.07.2009	Rapidly fall quotes last year intends considerable potential of growth despite of negative moments
NWT, ps	SPTLP	0,3500	0,3773	7,8	BUY	17.07.2009	
Sibirtelecom, cs	ENCO	0,0365	0,0379	4,0	BUY	19.08.2009	
Sibirtelecom, ps	ENCOP	0,0095	0,0285	199,6	BUY	19.08.2009	
Uralsvyazinform, cs	URSI	0,0210	0,0323	53,9	BUY	25.06.2009	
Uralsvyazinform, ps	URSIP	0,0180	0,0242	34,7	BUY	25.06.2009	
Centrtelecom, cs	ESMO	0,4750	0,3072	-35,3	REDUCE	10.08.2009	Shares reached ththeir fair values. Growth potential are contained by credit risks
Centrtelecom, ps	ESMOP	0,4200	0,2304	-45,1	REDUCE	10.08.2009	
STC, cs	KUBN	0,0675	0,0461	-31,7	HOLD	14.08.2009	High debt level carries highly risks of investments in this shares
STC, ps	KUBNP	0,0630	0,0346	-45,1	HOLD	14.08.2009	
Alternative telephony							
Vimpelcom	VIMP	19,54	18,13	-7,2	HOLD	27.11.2009	High debts cuts up development
MTS	MTSS	7,15	11,25	57,3	BUY	20.11.2009	Aquisition of Comstar
Comstar-UTS	CMST	5,2500	6,4090	22,1	BUY	04.09.2009	Company has all chances to live out crisis with minimum losses
Long-distance communication							
Rostelecom, cs	RTKM	6,1000	2,9641	-51,4	SELL	10.11.2009	Limited perspectives of company's business development
Rostelecom, ps	RTKMP	2,2000	2,2231	1,1	HOLD	10.11.2009	
Media							
CTC Media	CTCM	14,96	13,85	-7,4	ACCUMULATE	07.08.2009	Quotes are slightly moving to fair value

Estimation: Veles Capital

Brief investor's guide

Methods, used for company's share evaluation					
Income approach			Comparables approach	Expenses approach	
		DCF method	EVA method	Multiplicative method	Net assets method
Concept of evaluating the unified object (EV) *		FCFF discounting	EVA discounting		
Shareholders' value direct calculation (SV) **		FCFE discounting	EVA for shareholders discounting (Edwards-Bell-Ohlson method)		

*

Debt cost is calculated separately and then subtracted from the sum total cost of business (target EV), formed considering the cash flows/ economic profits of firm.

**

Debt is accounted integrated -via annual coverage. So the fair cost of shareholders' value (target SV) is formed directly - considering the cash flow / economic profits for holders.

Note:

DCF methods differ from the methods of economic profit by the way of investments calculation. The methods of unified object evaluation concept differ from these methods of direct calculation of shareholders' value costs - by the way of accounting cost and maintenance of debt liabilities.

Cost calculation within the frames of income approach:

	Business cost calculation (EV) within the frames of united object cost evaluation	Shareholders' capital value calculation (SV)
DCF method (FCFF)	$EV = \sum_{i=1}^n \frac{FCFF_i}{(1+WACC_c)^i} + \frac{TV}{(1+WACC_c)^n} + NA$	$SV = EV - D$
DCF method (FCFE)		$SV = \sum_{i=1}^n \frac{FCFE_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + \text{Cash} + NA$
EVA method	$EV = IC_1 + \sum_{i=1}^n \frac{EVA_i}{(1+WACC_c)^i} + \frac{TV}{(1+WACC_c)^n} + NA$	$SV = EV - D$
EBO method		$SV = BV_1 + \sum_{i=1}^n \frac{SVA_i}{(1+k_{S_i})^i} + \frac{TV}{(1+k_{S_i})^n} + \text{Cash} + NA$

Signs:

EV	- Enterprise Value
SV	- Shareholders Value
TV	- Terminal Value
Cagr	- development rates within the target period
BV, E	- Balance Value, Equity
EBIT	- operational profit from selling, profit before payments of credit interest and income tax
EBITDA	- operational profit before payment of credit interest, income tax and amortization
EBT	- Earnings Before Tax
EAT	- Earnings After Tax
EPS	- Earnings Per Share
NOPAT	- net operational profit, free from effects of debt financing NOPAT = EBIT * (1 - income tax effective rate)
FCFF	- Free Cash Flow to Firm FCFF = gross cash flow - gross investments Gross cash flow = NOPAT + amortization
FCFE	- Free Cash Flow to Equity FCFE = gross shareholders' cash flow - gross investments Gross shareholders' cash flow = EAT of operational profit (including interest payoffs) - annual debt coverage + attracted borrowed assets + amortization
EVA	- Economic Value Added EVA = economic profit spread * IC = (ROIC - WACC) * IC
SVA	- Shareholders Value Added SVA = spread * E = (ROE - k_s) * E
WACC	- Weighted Average Cost of Capital
k _s	- required shareholders' yield
D	- fair (market) cost of net debt
Cash	- cash assets, along with market securities on thee balance
NA	- non-operational assets
IC	- Invested Capital
ROIC	- Return on Invested Capital ROIC = NOPAT / IC
ROE	- Return on Equity
ROA	- Return on Assets

Information disclosure

The statement of an analyst and confirmation of the responsibility withdrawal

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The principle of recommendation assignment

The investment recommendations are given based on the evaluation of the company's share yield. The basis for the calculation of the expected company's cost is the evaluation by the discounted cash flows method (DCF). In some estimations the method of comparable coefficients, and also the mixed estimation (by DCF method and by comparable coefficients method) are applied. All recommendations are assigned based on the determined by us the fair cost of the shares within the nearest 12 months.

At the present moment the investment scale of the Investment Company Veles Capital is the following:

BUY – corresponds to the growth potential of the shares within the nearest 12 months by 15% or more.

ACCUMULATE – corresponds to the growth potential of the shares within the nearest 12 months for 5-15%.

HOLD – corresponds to the growth (reduction) potential of the shares within the nearest 12 months from -5% to 5%.

REDUCE – corresponds to the reduction potential of the shares within the nearest 12 months from 15% to 5%.

SELL – corresponds to the reduction potential of the shares within the nearest 12 months by 15% or more.

In some cases the deviations from the evaluation scale given above, based on which the recommendations are assigned, are possible. That fact relates to the high volatility of some securities in particular, and market in the whole, and also to the individual characteristics of one or another issuer.

In order to get additional information and specifications please contact the Research Department of the Investment Company Veles Capital.

Research Department*research@veles-capital.ru*

Mikhail Zak
Head of Department
Strategy
MZak@veles-capital.ru

Ivan Manaenko
Fixed income market,
Macroeconomics
IManaenko@veles-capital.ru

Ilya Fedotov
Telecommunications
IFedotov@veles-capital.ru

Stanislav Fomenko
Metallurgy
SFomenko@veles-capital.ru

Marina Irkly
Transport, machinery
Mirkly@veles-capital.ru

Oleg Zotikov
Energy
OZotikov@veles-capital.ru

Dmitry Lyutyagin
Oil and gas
DLyutyagin@veles-capital.ru

Sales and Trading Department*sales@veles-capital.ru*

Yury Pavlov
Director (VIP clients)
YPavlov@veles-capital.ru

Sergey Vetoshkin
Corporative Clients
SVetoshkin@veles-capital.ru

Alexander Taran
Trading (Ukraine)
ATaran@veles-capital.com.ua

Assets Management*am@veles-capital.ru*

Beyshen Isaev
Head of Department
BIsaev@veles-capital.ru

Vadim Labed
Investor relations
VLabed@veles-capital.ru

Stanislav Brodsky
Investment products
SBrodsky@veles-capital.ru

Russia, Moscow, 123610, Krasnopresnenskaya nab. 12,
Entr. 7, floor 18
Tel.: 7 (495) 258 1988, Fax: 7 (495) 258 1989
www.veles-capital.ru

Ukraine, Kiev, 04070, Naberezhno-Kreschatitskaya,
37/55
Tel.: 38 (044) 459 0250
Fax: 38 (044) 459 0251